

THE AUDIT PROCESS

General Requirements - Working Papers

APPROVAL/TRANSMITTAL

This manual section provides policy and procedures for audit working papers. This supersedes IG-7215, dated December 1991. Remove and destroy previous editions.

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Inspector General

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A. POLICY. OIG audit working papers shall be prepared in accordance with the Government Auditing Standards, this directive, and the Working Paper Preparation and Content Handbook which augments this directive.

The fieldwork standards for Government performance and financial audits require that sufficient, competent, and relevant evidence be obtained to afford a reasonable basis for the auditor's judgment and conclusions. If the auditor determines that certain standards do not apply, this must be documented in the working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain the evidence supporting the auditor's significant conclusions and judgments.

B. DEFINITIONS. A "working paper" is a stand-alone page or group of pages documenting the completion of audit step(s). A working paper contains a description of the work performed, the findings, conclusions, and recommendations. Evidence is information collected or prepared to support findings and conclusions. Evidence will generally not be attached to a working paper, but is filed in folders.

C. PROCEDURES. Prepare working papers as follows.

1. Planning. Audit programs state the audit objectives and describe the planned audit scope and approach. The audit program identifies special or unique requirements and provides guidelines on audit methodologies, pro forma working papers, microcomputer applications, and working paper preparation and indexing. The auditor must plan the types of working papers necessary to meet the audit objectives.

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2. Documentation. Documentation will vary with the nature of the work performed. For example, Government Auditing Standards require that communications with the auditee concerning unreported irregularities, illegal acts, and other noncompliance, even if not included in the audit report, must be documented in the working papers. Generally, the audit program specifies the extent and nature of documentation to be obtained. When the work includes examinations of the auditee's records, the working papers should describe those records so that an experienced auditor would be able to examine those same records. In cases where adverse conditions are not identified, auditors may meet this requirement (to identify the records) by listing file numbers, case numbers, or other means of identifying specific documents examined. In cases where adverse conditions are identified or where the task or program area is particularly complex, copies of documents examined should be included in the working papers. Professional judgment must be used to avoid excessive photocopying.

3. Permanent Files. The use of permanent files provides readily available access to key documents. Maintain updated permanent files for each financial statement audit entity and any other audit where the use of a permanent file would be beneficial. Keep the permanent files in loose-leaf binders and appropriately indexed to facilitate access. Include in the permanent files key laws and regulations, key GAO, OIG, and other pertinent reports, agency Federal Manager's Financial Integrity Act reports, pertinent agency financial management guidance, etc.

4. Working Papers. Each working paper shall be clear, legible, and contain the following information, as appropriate:

- a. Title. Identify the program or segment of program under audit.
- b. Purpose. State the purpose for performing the audit work if it is not readily apparent by a cross-reference to the applicable step(s) in the audit program.
- c. Source. State the specific source of all data or information so that someone not familiar with the audit can easily locate required information and recreate the sample selections. For evidence gathered, list the source on the index of the evidence.
- d. Scope. Include appropriate scope information, such as the volume of transactions, number examined, percentage of total volume represented by the test, and a description and justification of the method used in sample selection. Inclusive dates of transactions examined should be included.

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e. Conclusions. Concisely summarize the audit results, including any findings. Specific causal factors and actual or possible effects should be identified. Provide a clear and concise conclusion and the basis for arriving at the conclusion.

f. Recommendations. If conclusions disclose the existence of adverse conditions and corrective actions are needed, include recommendations. Recommendations should address the causal factors that were identified during development of the findings and conclusions.

g. Details of Work Performed. This is the body of the working paper containing the details of the work performed. Evidence gathered should not be attached to a working paper. Depending on the indexing system for the audit, it can be filed with other work performed for the sample unit or it can be filed separately. (See Sections 10 and 11 for further discussions of evidence and its filing.)

h. Legends. Explain all tick marks or audit symbols used on the working papers.

i. Footnotes. Consecutively number or letter footnotes, as appropriate.

j. Identification. Each page of the working paper shall contain the audit number, number of any applicable audit step(s), auditor's initials, date prepared, working paper number and page number. Evidence should be indexed showing its source, description, date obtained, and a control number. Assign numbers so that when evidence is placed in folders using the landscape method (sideways), control numbers can be easily viewed at the top. Evidence obtained must be cross-referenced to findings and/or conclusions supported by the evidence.

5. Special Requirements for Automated Working Papers. Working papers include computer tapes and disks containing the audit program, the data base, pro forma working papers, spreadsheets, the draft report, and software programs. Automated working papers should likewise contain the information discussed in section C4 above. Where practical, automated working papers should be printed and included in the working paper file. Diskettes can be filed with other working papers. However, it is generally not feasible to maintain copies of voluminous data bases from which audit samples were selected or to print such universe data. In such cases, the data base from which samples were selected needs to be clearly identified, including its location, date, number of records, etc. When in-house software programs are developed and used, a copy of all programs and supporting documentation should be printed or retained on tape or disk. Where applicable, identify the software and the version used to prepare working papers (e.g., WordPerfect 5.1 or dBase IV 2.0).

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Tapes and disks which are too voluminous to store with the working papers should be properly stored either at the Department's computer center or under the control of the regional ADP security officer. The auditor should prepare a working paper indicating the storage location and describing the data stored on the tapes or disks. Label tapes and disks to identify the assignment number, audit title, description of data, and data generated.

Cross-reference automated working papers in the hard copy working papers. In addition, all working paper diskettes must have write-protected backup copies.

For automated working papers, include the audit assignment number in the heading and in the file name. Affix external labels identifying the audit number and file name to storage media containing audit tapes or diskettes. At least daily, the auditor should create a backup copy of the working paper diskettes. Upon completion of the audit, automated working papers will be printed, unless overly voluminous, and retained in the working paper folders. When computer-generated working papers are printed out, any formulas used in the preparation of those working papers should also be printed out.

6. Summaries. As necessary, prepare summaries to highlight conclusions and recommendations and, for each sample unit or program segment, cross-reference prepared summaries to the work performed and file them with the data summarized. A summary may also be needed to consolidate common reportable issues for the entity under review. When the issues are not complex or there are no findings or recommendations, a statement of audit results can be put forth in the finding section of the working paper; a separate working paper summary is not needed.

7. Statement of Condition/Issue Paper. A statement of condition is generally used in connection with performance audits, while an issue paper is used with financial audits. In either case, it is a written document used when needed during the audit fieldwork to confirm data, facts, conclusions, and other audit information with the auditee. It is part of the working papers and is not an audit report. Written concurrence to the statement of condition or issue paper should generally be requested from the auditee. File the statement of condition or issue paper and the auditee's response in the working papers.

8. Cross-References. Cross-reference both manual and automated working papers to other working papers, evidence, the audit program, summaries, the draft report, and the final report. Detailed and accurate cross-referencing is critical to facilitate subsequent reviews and referencing.

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9. Control and Custody. Maintain proper control and adequate safeguards over working papers and evidence at all times. Working paper files will always remain in the control and custody of OIG. With the concurrence of OIG management, authorized persons may obtain information from them or be provided photocopies of pertinent information. Use Government contract express delivery or other appropriate means when working papers are sent from one location to another.

10. Indexing. Working papers should be indexed to correspond with the audit program. Careful planning is needed to assure working papers and evidence are filed in such a manner as to facilitate report writing and supervisory reviews.

11. Evidence Needed to Support Work Performed. The collection of audit information may involve copying or compiling records, reports, regulations, procedures, and other documents as evidence of work performed or a condition found. The documents may consist of one or more pages of information that must remain intact to be easily understood. These documents should be included in the working papers as audit evidence. These documents should not be mounted onto another working paper page. The types of evidence include:

a. Physical Evidence. Obtained by observation, photograph, or similar means. Identify by date, location, etc.

b. Testimonial Evidence. Show the date, place, and time of the interview. Include all persons present and their titles. Obtain written corroboration of the testimonial evidence when subsequent refutation is possible or it will be used to support an audit conclusion or finding.

c. Documentary Evidence. Consists of tangible, retrievable information created by the auditee or third parties.

d. Analytical Evidence. Created through analysis of information, such as computations and comparisons.

Presentation of Evidence. Evidence obtained must meet basic tests of sufficiency, competence, and relevance. The auditor's working papers should reflect details of the data the auditor relied upon and should disclose procedures employed in obtaining it. File evidence in accordance with the audit program indexing system. Proper planning of the indexing system in line with the audit objectives is critical in assuring that data is filed in such a manner to facilitate its use and review.

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Number each page of evidence and staple or clip multiple pages together. Use an index to control the numbers assigned to work performed or evidence gathered. For evidence obtained, the index should include the control number, the type of evidence, date obtained, description, and source. It may or may not be necessary to identify each piece of evidence obtained, but at a minimum critical evidence must be noted. However, it is acceptable to group documents that are part of a related subject. For example, if a producer's entire crop insurance file is copied as evidence at a county office, the entire package could be clipped together and assigned a control number as opposed to each form contained therein. The control number should be placed on the evidence in such a manner that when it is placed sideways in the folder, the number can be easily viewed.

12. Organization of Working Papers. Working papers and accompanying evidence will be filed in folders. Each file folder will contain an index which identifies the contents. A proven method to accomplish this is to include a master index in each folder with the information contained in the specific folder highlighted. The working paper files will be arranged as follows:

a. The first folder(s) of a set of working paper files will contain the following general audit control documents:

- (1) Draft and final reports (cross-referenced)
- (2) Audit program (cross-referenced)
- (3) Supervisory/management reviews/comments
- (4) Informational memoranda/management alerts
- (5) Audit control documents, including a master index of all files

b. The next folder(s) will contain survey steps, findings, and conclusions.

c. Audit segments corresponding to the audit program follow. For example, a working paper file might contain:

Section III - National Office Coverage
Section IV - State Office Coverage
Section V - County Office Coverage

At the county or local level, subsegments may be needed depending on audit objectives. The key is to keep data together for each sample unit be it a producer, a program, a subsegment of a program, or the county or entity under review. For

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example, if the auditor reviewed the farming operations of 10 producers at a county, the work performed and evidence gathered for each producer could be filed together. Likewise, all working papers pertaining to the entity under review should be filed together for audits involving multiple entities. When audit steps are performed at multiple audit sites, separate working paper number suffixes must be used for each site.

A variation of this method would be to summarize the work performed and results of the review in working papers with evidence filed separately in folders but cross-referenced to the working papers.

d. File evidence and working papers in file folders numbered in sequence with the working paper numbering system established for the audit. Each file folder should have an index as the first document in the folder. File the master index of data in the segment folders (and supplemental index if applicable) with audit control documents (see subject a. above). Copies of the master and supplemental indexes may also be used as the index for the segment folder with the contents of the particular segment folder highlighted.

e. Identify files with labels placed in the upper-center portion of the outside file cover. The labels should contain the following information:

- (1) Arabic numerals numbered consecutively to identify the files;
- (2) name of auditee;
- (3) program under audit (title of audit and location);
- (4) audit period;
- (5) inclusive working paper numbers contained within the file in sequence; and
- (6) audit assignment number.

f. Evidence files are not required to be bound; however, like items should be stapled or clipped together.

13. Supervisory Review. A supervisor, auditor-in-charge, or a senior auditor will review and initial working papers or attach appropriate notes to evidence the review (see exhibit A) and to provide assurance that objectives have been met, data have been properly collected and analyzed, conclusions and recommendations are appropriate, and the audit report is supported. See IG-7314, The Audit Process - Audit Programs/Job Planning and Supervision, for specific requirements during various phases of the audit.

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SUPERVISORY REVIEW SHEET

Exhibit A of
IG-7215

Audit Title

__ Audit
Number

Supervisory Auditor's Comments/Actions Taken
Review

Date	Comments	Date	Comments/Actions
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